

Appendix 4

What mortgage options are currently available to homebuyers?

Until last year, the Housing Financing Fund (HFF) held a virtual monopoly in the mortgage market. Other financial institutions did not offer mortgages at competitive rates of interest, and then only as second mortgages to supplement loans that households took with the HFF and, to some extent, the pension funds. After financial companies began providing mortgages at competitive rates of interest, households were given substantially more scope for financing their housing purchases. Growth of credit supply has probably been a major driver of soaring housing prices, which showed a twelve-month rise of 19.9% in February. Financial institutions providing mortgage loans are the HFF, Íslandsbanki, KB banki, Landsbanki Íslands, Netbankinn (nb.is), Frjálsi fjárfestingarbankinn, the savings banks and most pension funds.

KB banki made the first move with CPI-indexed mortgage loans carrying 4.4% interest. These were annuity loans with a maximum loan-to-value ratio of 80%. The other commercial banks followed suit, along with the savings banks and HFF. The banks bid each other down and now all offer 4.15% interest with CPI indexation. Besides lower interest rates, the loan-to-value ratios were raised. Loan ceilings are now set at 80%-100% of market value. Maturities are also more flexible than on HFF mortgage loans, at 5-40 years. A first priority pledge is still always a condition for a 100% mortgage, and interest rates are either fixed or reviewed at five-year intervals. In most cases the borrower has to be a customer of the respective institution but this requirement is not made by Frjálsi fjárfestingarbankinn.¹

Apart from mortgageability of the property and the customer's debt service capacity, banks generally do not set ceilings for mortgage amounts.² However, an exception is made when the loan-to-value ratio exceeds 80%. The maximum mortgage for a loan-to-value ratio from 80% to 100% is 25 m.kr. and such loans are only provided for housing purchases (i.e. not for refinancing).

The banks also offer loans that are foreign currency-linked, indexed to a currency basket or denominated in a combination of foreign and domestic currency. Several currencies are used, mostly the US dollar, euro, Swiss franc and yen. Since these loans carry variable interest rates set at a spread above 3-month LIBOR, borrowers face both interest rate and currency risks.

1. To qualify for customer status, the borrower needs to use either all or three of the following services: salary account, direct debit, payment card, supplementary pension savings scheme and/or various types of personal insurance.

2. In all cases, the lender insists on an evaluation of the customer's debt service capacity.

In December, the HFF and savings banks launched a joint mortgage scheme, enabling them to offer much higher loan amounts. The HFF lends according to its lending rules and the savings banks top up the loan with the balance required.

Pension funds have also begun to offer mortgage loans, exclusively for their members. Maturity is generally the same as on loans offered by the banks but the loan-to-value ratio is only 60-65%. The lower ratio, combined with a ceiling of 85-100% of fire insurance value, means that pension funds offer much lower loan amounts than commercial banks. Their interest rates are also slightly higher, at 4.15-4.33%. The three largest pension funds are included in the examples in the table.

All mortgage loans are subject to 1.5% stamp duty and a registration fee of 1,200-1,350 kr., both of which accrue in full to the Treasury.

The accompanying table clearly illustrates the wide variety of loan options currently on offer.

Household mortgage loan options

<i>Loan options</i>	<i>Mortgage loan 1</i>	<i>Mortgage loan 2</i>	<i>Mortgage loan 3</i>	<i>Mortgage loan 4</i>	<i>Mortgage loan 5</i>	<i>Mortgage loan 6</i>	<i>Mortgage loan 7</i>
Loan-to-(market) value ratio	100%	100%	100%	100%	90%	90%	90% of market value or construction cost
Maximum	25 m.kr	130% of combined fire insurance and land value	None	None	25 m.kr	25 m.kr	14.9 m.kr. (Less than 100% of fire insurance value)
Pledge	1st priority	1st priority	1st priority not a condition	1st priority not a condition	1st priority	1st priority	1st priority
Interest rate	4.15% fixed, CPI-indexed	4.15% fixed, CPI-indexed	Variable depending on pledge	Variable, currency-linked against króna and foreign currencies	4.15% fixed, CPI-indexed	4.15% fixed, CPI-indexed	4.15% fixed, CPI-indexed
Format	Equal instalments	Optional	Optional	Optional	Annuity	Annuity	Annuity
Maturity	5-40 yrs.	5-40 yrs.	Up to 40 yrs.	Up to 40 yrs.	25 or 40 yrs.	25 or 40 yrs.	20, 30 or 40 yrs.
Review clause	Y (interest rate reviewed every 5 years)	Y	Y (premium reviewed every 5 years)	Y (premium reviewed every 5 years)	N	Y (interest rate reviewed every 5 years)	N
Refinancing	N	N	Y (also suitable for home improvements and debt conversion)	Y (also suitable for home improvements and debt conversion)	N	N	Y (suitable for home improvements and new housing)
Prepayment charge	2%	2%	N	2%	2%	2%	N
Borrowing charge	1%	1%	1%	1%	1%	1%	1%

<i>Loan options</i>	<i>Mortgage loan 8</i>	<i>Mortgage loan 9</i>	<i>Mortgage loan 10</i>	<i>Mortgage loan 11</i>	<i>Mortgage loan 12</i>	<i>Mortgage loan 13</i>	<i>Mortgage loan 14</i>
Loan-to-(market) value ratio	90%	80%	80%	80%	80%	80%	80%
Maximum	25 m.kr	None	None	None	25 m.kr if 20% second mortgage taken	25 m.kr if second mortgage taken	None
Pledge	1st priority	1st priority not a condition	1st priority not a condition	1st priority not a condition	1st priority	1st priority	1st priority
Interest rate	4.15% fixed, CPI-indexed	4.15% fixed, CPI-indexed	Non-indexed, variable	5-6% variable, depending on loan-to-value ratio	4.15% fixed, CPI-indexed	4.15% fixed, CPI-indexed	4.15% fixed, CPI-indexed
Format	Annuity	Annuity	Equal instalments	Annuity	Annuity	Annuity	Annuity
Maturity	20-40 yrs.	5-40 yrs.	5-40 yrs.	5-40 yrs.	Up to 40 yrs.	25 or 40 yrs.	5-40 yrs.
Review clause	N	Y (interest rate reviewed every 5 years)	Y (premium reviewed every 5 years)	Y	N	N	N
Refinancing	Y	Y	Y	Y	N	Y	Y
Prepayment charge	N	2%	2%	N	2%	2%	2%
Borrowing charge	1%	1%	1%	1-2% depending on loan-to-value ratio	1%	1%	1%

<i>Loan options</i>	<i>Mortgage loan 15</i>	<i>Mortgage loan 16</i>	<i>Mortgage loan 17</i>	<i>Mortgage loan 18</i>	<i>Mortgage loan 19</i>	<i>Mortgage loan 20</i>	<i>Mortgage loan 21</i>
Loan-to-(market) value ratio	80%	80%	80%	80%	80%	80%	80%
Maximum	None	10.1 m.kr (less than 100% of fire insurance value)	None	None	None	None	None
Pledge	1st priority	1st priority	1st priority	1st priority	1st priority	1st priority not a condition	1st priority
Interest rate	4.15% fixed, CPI-indexed	4.15% fixed, CPI-indexed	Variable depending on loan-to-value ratio. 50% krónur and 50% foreign	Variable depending on loan-to-value ratio, from 2.67%. Currency basket	4.15% fixed, CPI-indexed	Non-indexed, 50% krónur and 50% foreign	Fixed 4.7-6.7%
Format	Optional	Annuity	Equal instalments	Equal instalments	Annuity	Equal instalments	Equal instalments
Maturity	5-40 yrs.	25 or 40 yrs.	Up to 40 yrs.	Up to 40 yrs.	5-40 yrs.	5-40 yrs.	Up to 40 yrs.
Review clause	Y	N	Y (premium reviewed every 5 years)	Y (premium reviewed every 5 years)	Y	Y (premium reviewed every 5 years)	N
Refinancing	Y	Y	Y	Y	Y	Y	Y
Prepayment charge	2% (waived if interest rate changes)	N	N	N	2%	N	0.2% per year to maturity
Borrowing charge	1%	1%	1-2%	1-2%	1%	1%	1-2%

<i>Loan options</i>	<i>Mortgage loan 22</i>	<i>Mortgage loan 23</i>	<i>Mortgage loan 24</i>	<i>Mortgage loan 25</i>	<i>Mortgage loan 26</i>	<i>Mortgage loan 27</i>	<i>Mortgage loan 28</i>
Loan-to-(market) value ratio	80%	70%	65%	65%	65%	65%	65% of Land Registry or market value (up to 85% of fire insurance value)
Maximum	None	None (up to 100% value)	Not specified	None (Up to 100% of fire insurance value)	None (Up to 100% of fire insurance value)	None specified	None
Pledge	1st priority	1st priority	1st priority	1st priority	1st priority	1st priority	1st priority
Interest rate	4.15% fixed, CPI-indexed	Variable, foreign currency-linked, (depends on loan-to-value ratio) USD 30% EUR 40% CHF 20% JPY 10%	4.33% variable, CPI-indexed	4.15% fixed, CPI-indexed	4.26% variable, CPI-indexed	4.15% fixed, CPI-indexed	4.15% fixed, CPI-indexed
Format	Annuity	Not specified	Optional	Optional	Optional	Optional	Optional
Maturity	5-40 yrs.	Up to 40 yrs.	5-40 yrs.	5-40 yrs.	5-40 yrs.	5-40 yrs.	5-40 yrs.
Review clause	Y	Y (premium changed every 3 months)	Y	N	Y	N	N
Refinancing	Y	Y	N	N	N	N	N
Prepayment charge	2%	2%	N	N	N	N	N
Borrowing charge	1%	1%	1%	1%	1%	1%	1%

<i>Loan options</i>	<i>Mortgage loan 29</i>	<i>Mortgage loan 30</i>	<i>Mortgage loan 31</i>	<i>Mortgage loan 32</i>
Loan-to-(market) value ratio	65% of land Registry of market value (up to 85% of fire insurance value)	20%	20%	20%
Maximum	None	None	25 m.kr. for 80% loan	25 m.kr
Pledge	1st priority	2nd priority	2nd priority	2nd priority
Interest rate	4.15% variable, CPI-indexed	4.15% fixed, CPI-indexed	4.15% fixed, CPI-indexed	4.15% fixed, CPI-indexed
Format	Optional	Annuity	Annuity	Optional
Maturity	5-40 yrs.	10 yrs.	Up to 15 yrs.	Up to 15 yrs.
Review clause	Y	N	N	Y
Refinancing	N	Y	N	N
Prepayment charge	N	N	N	N
Borrowing charge	1%	1%	1%	1%